

*Hand Delivered*

May 21, 2002

Paul B. Vasington, Commissioner  
James Connelly, Commissioner  
W. Robert Keating, Commissioner  
Eugene J. Sullivan, Commissioner  
Deirdre K. Manning, Commissioner  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, MA 02110

Re: Boston Gas Company Performance-Based Ratemaking Plan

Dear Chairman Vasington and Commissioners:

In Boston Gas Company, D.P.U. 96-50 (Phase I) (1996), the Department of Telecommunications and Energy (the "Department") approved a performance-based ratemaking plan (the "PBR Plan") for Boston Gas Company d/b/a KeySpan Energy Delivery New England (the "Company"). The term of the PBR Plan allowed for successive annual adjustments beginning on November 1, 1997 and continuing through November 1, 2001. D.P.U. 96-50, at 320. On August 23, 2001, the Department requested that the Company submit to the Department a proposal to succeed the PBR Plan after November 1, 2001.<sup>1</sup> In accordance with that directive, the Company hereby requests that the Department extend the PBR Plan for a period of one year.

In its order approving the PBR Plan, the Department stated that, upon the expiration of the initial five-year term of the PBR, the PBR Plan could be extended without modification for an additional term, extended with modifications, or terminated. Id. Following the Department's request on August 23, 2001, the Company indicated to the Department that it would make a rate-plan proposal to the Department no later than April 1, 2002. Letter from Joseph F. Bodanza to Chairman Connelly and Commissioners, October 4, 2001. As soon as financial data for the period ending December 31, 2001 became available, the Company initiated a comprehensive assessment of its cost to serve customers. The results of the Company's review indicated the existence of a substantial revenue deficiency and, based on that assessment, the Company notified the Department on March 27, 2002 that it intended to file a base-rate proposal on May 15, 2002. For a number of reasons, the Company has since decided to delay the filing of the base-rate case.

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<sup>1</sup> On November 1, 2001, the Department approved the Company's Fifth Annual Compliance Filing effective as of that date.

As previously indicated to the Department, the Company anticipates that the base-rate filing will encompass both the establishment of new cast-off rates, using a traditional cost-of-service ratemaking approach, and a proposal to extend or modify the PBR Plan established for the Company in D.P.U. 96-50. In addition, the Company is evaluating the potential for consolidating the rates of Boston Gas with those of Colonial Gas Company and Essex Gas Company to create a unified set of rates for the distribution companies operating in Massachusetts as KeySpan Energy Delivery New England. The rate consolidation planning process is underway, but significant work remains to be done. Since the base-rate proceeding will provide the most appropriate forum for the Department's review and consideration of the rate-consolidation proposal, the Company has decided to delay the base-rate proceeding. A delay of the base-rate proceeding will provide the Company with the opportunity to focus its resources on the preparation of a combined base-rate case and rate consolidation proposal. In turn, the additional time will benefit the Department to the extent that it enables the Company to present a filing to the Department that is comprehensive in dealing with the range of issues that will be involved but that is also designed to facilitate the Department's consideration of those issues. The Company is currently preparing to make this filing to the Department in 2003.

To maintain the continuity of the PBR plan until such time that the Department is presented with, and concludes, its investigation in the pending base-rate proceeding, the Company proposes to extend the term of the current PBR plan for a one-year period. To implement this proposal, the Company would submit a Sixth Annual Compliance filing to the Department on September 15, 2002, which would apply the existing PBR formula to establish rates for effect on November 1, 2002.<sup>2</sup>

The Company appreciates the Department's consideration of this matter. Please feel free to contact me should you have any questions or concerns regarding the Company's proposal. Thank you for your attention and cooperation.

Very truly yours,

Joseph F. Bodanza

cc. Paul G. Afonso, General Counsel  
Kevin Brannelly, Director, Rates and Revenue Requirements Division  
George Yiankos, Director, Gas Division  
Joseph W. Rogers, Assistant Attorney General  
Robert Sydney, General Counsel, Division of Energy Resources

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<sup>2</sup> On April 17, 2002, the Department approved a service-quality plan for Boston Gas that transitions to a calendar-year measurement period, which will be the same measurement period for Colonial Gas and Essex Gas. Therefore, coincident with the Department extension of the PBR plan, the Company will have in effect a service-quality plan that comports with the guidelines established by the Department in Service Quality Standards, D.T.E. 99-84 (2001). Under the approved service-quality plan, the Company's next annual filing is due on March 1, 2003.